

HOUSE BILL 288 FAIRNESS IN OIL TAXES

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CONTEXT OF DISCUSSION ON OIL TAXES

House Majority Coalition Plan

4 Pillars

- Strategic cuts
- Oil tax fix
- Broad based measure
- POMV

COMPONENTS OF CURRENT TAX SYSTEM

Component	SB 21	HB 288
35% Base rate	X	X
Per Barrel Credit	X	X
Gross Value Reduction	X	X
Minimum Tax	X	X
Lease expenditure deductions	X	X

FLAWS IN CURRENT SYSTEMS*

- Functions as both gross and net profits tax
- Has components of severance tax and corporate income tax
- Too many components are linked to price
- Too complicated

*according to consultants hired by legislature

LOTS OF GOOD NEWS



ASK 3 QUESTIONS

1. How much profit per barrel?
2. How many barrels total?
3. How much revenue to the state?

A Net Profits Tax is very Volatile to Price

SB21 Tax Calculation At Different Prices

per one barrel of taxable oil: FY17 costs per Fall 16 RSB

Price	\$40	\$60	\$80	\$100	\$120	\$140
Transport	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33	\$9.33
GVPP	\$30.67	\$50.67	\$70.67	\$90.67	\$110.67	\$130.67
Lease Expend	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88	\$30.88
PTV (net)	-\$0.21	\$19.79	\$39.79	\$59.79	\$79.79	\$99.79
Tax at 35%	-\$0.07	\$6.93	\$13.93	\$20.93	\$27.93	\$34.93
Per-BBL Credit	\$8	\$8	\$8	\$6	\$4	\$2
Tax per Net	-\$8.07	-\$1.07	\$5.93	\$14.93	\$23.93	\$32.93
Minimum Tax	\$1.23	\$2.03	\$2.83	\$3.63	\$4.43	\$5.23
Higher Of	\$1.23	\$2.03	\$5.93	\$14.93	\$23.93	\$32.93
Tax as % of Price	3%	3%	7%	15%	20%	24%
Tax as % of GVPP	4%	4%	8%	16%	22%	25%
Tax as % of PTV	n/a	10%	15%	25%	30%	33%

USE 20,000 BARRELS AS THE EXAMPLE

20,000 barrels/day increase \times 365 days = 7,300,000

\times .875 (take out royalty barrels) = 6,387,500 taxable barrels

\times 2.03 (min tax of 4% of GVPP) = \$12,966,625

REMEMBER - \$2.5 BILLION SHORTFALL

In other words we would need to produce 1.2 billion more barrels of oil

USE 20,000 BARRELS AS THE EXAMPLE FOR ROYALTY

20,000 barrels/day increase \times 365 days = 7,300,000

\times .125 (royalty barrels) = 912,500 royalty (ownership share) barrels

\times \$50.67 (royal barrels value is GVPP) = \$59,203,000

REMEMBER - \$2.5 BILLION SHORTFALL

So total with taxable barrels + royalty barrels = \$2.03 + \$50.57 = \$52.70

In other words we would need to produce 47,438,330 more barrels of oil

OTHER POSSIBLE CONSIDERATIONS

PRICE	\$60 with 4% min tax	\$60 with 7% min tax	\$60 with 6% min tax	\$60 with 5% min tax	\$60 with Low Cost Lease Exp	\$60 with High Cost Lease Exp
Transport	\$9.33				\$9.33	\$9.33
GVPP	\$50.67				\$50.67	\$50.67
Lease Exp	\$30.88				\$20.88	\$40.88
PTV (net)	\$19.79				\$29.79	\$9.79
Tax at 35%	\$6.93				\$10.43	\$3.43
Per Barrel Credit	\$8				\$8	\$8
Tax per net	-\$1.07	-\$1.07	-\$1.07	-\$1.07	\$2.43	-\$4.57
Minimum Tax	\$2.03	\$3.55	\$3.04	\$2.53	\$2.03	\$2.03
HIGHER OF	\$2.03					
Tax as % of Price	3%					
Tax as % of GVPP	4%					
Tax as % of PTV	10%					

TAXABLE BARRELS PLUS ROYALTY BARRELS VALUE

A BARREL CAN EITHER BE A TAXABLE BARREL OR A ROYALTY BARREL – can only be used once

Total Value =

X number of barrels increase X 365 days = increase barrels X .875 for taxable barrels = total barrels X \$2.03 = value of TB

X number of barrels increase X 365 days = increase barrels X .125 for royalty barrels = total barrels X \$50.67 = value of RB

Barrel Per Day Increase	20,000	VALUE	50,000	VALUE	100,000	VALUE
Total Barrels	7,300,000		18,250,000		36,500,000	
Royalty Barrels (RB)	6,387,500	\$12,966,625	15,968,750	\$34,416,562.50	31,937,500	\$64,833,125
Taxable Barrels (TB)	912,500	\$59,203,000	2,281,250	\$115,590,937.50	4,562,500	\$231,181,875
Total Value (severance tax + royalty value)		\$72,169,625		\$150,007,500		\$296,015,000

QUESTIONS?

